

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

**OFFICE OF MANAGEMENT AND BUDGET**

**600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400**

**July 2010**

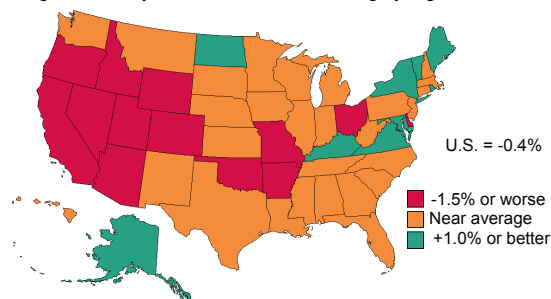
## MESSAGE FROM THE DIRECTOR

Moody's Economy.com reports in its July 2010 Précis U.S. Macro publication that "economic recovery has broadened across all regions of the country, reaching more than two-thirds of the nation's metropolitan areas at midyear." Moody's projects continued economic recovery, but their forecast is cautious.

The Moody's forecast provides an outlook that "is most stable in the Northeast and the Midwest." However, certain areas of the country are projected to continue to struggle as housing and labor markets are slow to recover. In the West, "given the region's high and unbending unemployment rate, wage pressures are virtually nil." This is reflected on the map below, showing wage income declines throughout much of the western U.S. June 2010 data from the U.S. Bureau of Economic Analysis shows that the

### Weak Income Growth in the West

Wage and salary income, 2010Q1, % change yr ago



Source: Moody's Economy.com, BEA

U.S. average change in wage and salary disbursements from first quarter 2009 to first quarter 2010 was -.4 percent. Declines exceeded 2.0 percent in the Far West and Rocky Mountain regions. The average decline in the Plains region was 1.0 percent. **In North Dakota, wages grew by 3.2 percent, the fourth highest rate of growth in the nation.**

Moody's reports that "downside risks to the labor market have intensified over the past month...Private hiring may not be able to fill the void left by vanishing census jobs over the next couple of months, and the unemployment rate is likely to inch back up." In addition, the moratorium on offshore drilling in the Gulf of Mexico "could result in thousands of lost jobs in energy and related industries."

Nationally, the June unemployment rate rose to 9.6 percent. In North Dakota, the unemployment rate, as reported by Job Service North Dakota, was only 4.1 percent. This was up slightly from the prior month due to a rapidly expanding workforce, but still lower than the 4.7 percent rate in June 2009.

Despite concerns, the economic recovery from "the Great Recession" is continuing and expansion is occurring in all regions. Moody's reports that "odds of a near-term double-dip recession, which were one-in-five this spring, are now one-in-four." However, their forecasters remain optimistic, noting that although this business cycle is different than others, "the one constant is that the U.S. economy's underlying strengths will ultimately prevail."

## OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production — starting at \$40 per barrel and 205,000 barrels per day and ending the biennium at \$55 per barrel and production of 225,000 barrels per day. Production jumped to a new all time record in May. The current rig count is 134. Price, production, and drilling activity are summarized on the following table:

	May 2010	April 2010	Mar 2010
Actual average price per barrel	\$62.91	\$75.41	\$73.48
Production (barrels/day)	296,400	284,400	277,300
Drilling permits	102	106	120
Producing wells	4,893	4,810	4,736
Rig count	114	107	102

Comments or Questions?  
Contact

Pam Sharp, Director  
Phone: 701-328-2680  
Fax: 701-328-3230  
E-mail:

[psharp@nd.gov](mailto:psharp@nd.gov)

Visit the North Dakota web site

[www.nd.gov](http://www.nd.gov)

## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium June 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	38,334,000	58,318,685	19,984,685	52.1%	558,497,000	554,253,326	(4,243,674)	-0.8%
Motor Vehicle Excise Tax	3,964,000	5,234,584	1,270,584	32.1%	39,539,000	55,476,899	15,937,899	40.3%
Individual Income Tax	17,391,000	16,140,252	(1,250,748)	-7.2%	321,199,000	301,638,335	(19,560,665)	-6.1%
Corporate Income Tax	23,917,000	22,069,645	(1,847,355)	-7.7%	120,164,000	87,874,592	(32,289,408)	-26.9%
Insurance Premium Tax	2,100,000	1,470,897	(629,103)	-30.0%	31,635,000	31,252,315	(382,685)	-1.2%
Financial Institutions Tax		29,324	29,324	100.0%	4,750,000	2,830,665	(1,919,335)	-40.4%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*	6,905,685		(6,905,685)	-100.0%	31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	256,026	266,790	10,764	4.2%	8,299,166	8,202,195	(96,971)	-1.2%
Lottery	5,577,500	5,100,000	(477,500)	-8.6%	5,577,500	5,100,000	(477,500)	-8.6%
Cigarette & Tobacco Tax	2,105,000	1,795,552	(309,448)	-14.7%	22,969,000	22,435,315	(533,685)	-2.3%
Wholesale Liquor Tax	672,000	650,483	(21,517)	-3.2%	6,714,000	7,367,872	653,872	9.7%
Coal Conversion Tax	4,104,000	3,209,576	(894,424)	-21.8%	22,323,000	21,113,869	(1,209,131)	-5.4%
Mineral Leasing Fees	(900,000)	(4,511)	895,489	-99.5%	10,200,000	8,033,904	(2,166,096)	-21.2%
Departmental Collections	2,537,325	2,563,281	25,956	1.0%	29,975,243	33,191,948	3,216,705	10.7%
Interest Income	2,549,829	2,759,714	209,885	8.2%	13,023,206	23,400,448	10,377,242	79.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer	2,367,918	6,260,457	3,892,539	164.4%	2,367,918	6,260,457	3,892,539	164.4%
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers		(11)	(11)	-100.0%	644,000	1,763,678	1,119,678	173.9%
<b>Total Revenues and Transfers</b>	<b>111,881,283</b>	<b>125,864,718</b>	<b>13,983,435</b>	<b>12.5%</b>	<b>1,563,877,033</b>	<b>1,536,195,819</b>	<b>(27,681,214)</b>	<b>-1.8%</b>

\* Oil and gas production and extraction tax collections in June totaled \$88.7 million, reflecting revenues in June and July. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through June, oil tax collections totaling \$311.3 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2009-11 Biennium June 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	June 2008	June 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	46,324,173	58,318,685	11,994,512	25.9%	487,878,783	554,253,326	66,374,543	13.6%
Motor Vehicle Excise Tax	6,230,355	5,234,584	(995,772)	-16.0%	66,901,056	55,476,899	(11,424,157)	-17.1%
Individual Income Tax	21,640,592	16,140,252	(5,500,340)	-25.4%	306,771,328	301,638,335	(5,132,993)	-1.7%
Corporate Income Tax	23,357,803	22,069,645	(1,288,158)	-5.5%	140,737,698	87,874,592	(52,863,106)	-37.6%
Insurance Premium Tax	1,921,319	1,470,897	(450,422)	-23.4%	33,590,545	31,252,315	(2,338,230)	-7.0%
Financial Institutions Tax	16,997	29,324	12,327	72.5%	5,761,402	2,830,665	(2,930,738)	-50.9%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*					31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	305,452	266,790	(38,662)	-12.7%	9,901,306	8,202,195	(1,699,110)	-17.2%
Lottery	5,300,000	5,100,000	(200,000)	-3.8%	5,300,000	5,100,000	(200,000)	-3.8%
Cigarette & Tobacco Tax	1,974,620	1,795,552	(179,068)	-9.1%	22,613,687	22,435,315	(178,372)	-0.8%
Wholesale Liquor Tax	585,353	650,483	65,129	11.1%	6,915,874	7,367,872	451,998	6.5%
Coal Conversion Tax	1,964,248	3,209,576	1,245,328	63.4%	23,843,410	21,113,869	(2,729,541)	-11.4%
Mineral Leasing Fees	(368,321)	(4,511)	363,810	-98.8%	10,512,674	8,033,904	(2,478,770)	-23.6%
Departmental Collections	2,971,769	2,563,281	(408,489)	-13.7%	29,569,233	33,191,948	3,622,715	12.3%
Interest Income	4,675,272	2,759,714	(1,915,558)	-41.0%	23,878,862	23,400,448	(478,413)	-2.0%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer		6,260,457	6,260,457	100.0%		6,260,457	6,260,457	100.0%
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	3,542	(11)	(3,553)	-100.3%	679,269	1,763,678	1,084,408	159.6%
<b>Total Revenues and Transfers</b>	<b>116,903,175</b>	<b>125,864,718</b>	<b>8,961,542</b>	<b>7.7%</b>	<b>1,360,855,127</b>	<b>1,536,195,819</b>	<b>175,340,692</b>	<b>12.9%</b>

\* Oil and gas production and extraction tax collections in June totaled \$88.7 million, reflecting revenues in June and July. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through June, oil tax collections totaling \$311.3 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

## VARIANCES

June 2010 revenues were \$125.9 million, \$14.0 million more than projected in the legislative forecast. This includes the negative variance of \$6.9 million related to oil taxes. Notable variances for the month are as follows:

- **Sales tax** collections for the month are \$20.0 million higher than the legislative forecast, bringing biennium to date collections within 1.0 percent of the forecast. May collections fell short of the forecast by \$12.4 million, so June collections reverse the May timing issue and reflect strong growth in taxable sales. Sales tax collections for the biennium to date are 13.6 percent higher than during the first year of the 2007-09 biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$1.3 million for the month and \$15.9 million for the biennium to date.
- **Individual income tax** collections were again lower than anticipated, missing the forecast by \$1.3 million for the month. Biennium to date collections are \$19.6 million below forecast, mostly attributable to the shortfall realized with April filings. The April shortfall appeared to be related to the national economy and reflected a drop in unearned income, such as dividends, interest, and royalties. However, current income tax withholding on wages continues to be strong, reflecting the state's healthy labor market.
- **Corporate income tax** collections continue to lag the forecast, falling short by \$1.8 million for the month and \$32.3 million for the biennium to date. The majority of North Dakota's corporate taxpayers are national corporations which have been negatively impacted by the national recession.
- **Insurance premium tax** collections fell short of the forecast by \$630,000 for the month, but are tracking closely to the forecast overall with a biennium to date variance of only 1.2 percent.
- **Oil and gas tax** collections for the month are \$88.7 million, reflecting revenues for June and July which are applied to the month of June to close out fiscal year 2010. Actual revenues collected over the 2 month period were \$55.0 million more than estimated in the legislative forecast. The legislative forecast assumed May prices of \$47 per barrel and production of 210,000 barrels per day. May prices actually averaged \$63 per barrel and production averaged 296,400 barrels per day. However the cumulative general fund share of oil taxes for the biennium is statutorily limited to \$71.0 million. This cap was reached in November 2009, so all additional oil tax collections through the end of the biennium will be deposited in the permanent oil tax trust fund.
- **Lottery transfer** was \$5.1 million. Higher than anticipated expenses in the first year are anticipated to be offset by additional revenue during the second year. The remaining projected amount of \$6.1 million is anticipated to be transferred in fiscal year 2011.
- **Coal conversion tax** collections fell short of projections by nearly \$900,000, bringing the biennium to date variance to -\$1.2 million. Senate Bill No. 2221 (2009), which provides a carbon dioxide capture credit against coal conversion taxes for qualifying facilities, appears to be resulting in a larger than anticipated reduction in tax collections.

OFFICE OF MANAGEMENT AND BUDGET  
600 EAST BOULEVARD AVE — DEPT. 110  
BISMARCK, ND 58505-0400  
<http://www.nd.gov/fiscal> or [www.nd.gov/omb](http://www.nd.gov/omb)